

State and Local Government Fiscal Position in 1994

By David F. Sullivan

THE SURPLUS of State and local governments measured on a national income and product accounts (NIPA) basis was \$26.2 billion in 1994, little changed from 1993 (table 1, chart 1). Within the State and local government surplus, the social insurance funds surplus, at \$65.6 billion, and the "other funds" deficit, at \$39.3 billion, both changed little in 1994.¹ In 1994, both receipts and expenditures accelerated slightly. In 1993, both receipts and expenditures had decelerated.

Receipts

State and local government receipts increased 5.9 percent in 1994 after increasing 5.7 percent in 1993 (table 2). General own-source receipts—that is, receipts excluding contributions for social insurance and Federal grants-in-aid—increased 5.9 percent in 1994, 0.8 percentage point more than in 1993; the step-up reflected an acceleration in economic activity in 1994.

Personal tax and nontax receipts increased 6.3 percent in 1994 after a 4.4-percent increase in 1993. Personal income taxes increased

6.7 percent after increasing 4.4 percent. Legislative actions reduced income taxes modestly in 1994 and 1993, about \$0.7 billion and \$0.6 billion, respectively. The acceleration in personal income taxes reflected a pickup in personal income, which increased 6.1 percent in 1994 after a 4.3-percent increase in 1993. Personal nontax receipts and personal taxes other than income taxes both accelerated in 1994.

Corporate profits tax accruals increased 16.8 percent in 1994, following a 25.2-percent increase in 1993. The deceleration reflected a slowdown in corporate profits before tax, which increased 13.4 percent after a 16.8-percent increase.²

2. Dollar levels are found in table 1.14 of the "Selected NIPA Tables."

1. This article discusses the State and local fiscal position as published in the NIPA's. As noted in the November 1994 SURVEY OF CURRENT BUSINESS, BEA has determined that corrections will need to be made to the NIPA estimates of property tax receipts and of related aggregates beginning with the first quarter of 1994. These corrections arise because the effects of changes to Michigan's property tax law were not recorded in accordance with NIPA accounting conventions. In the government accounts, the corrections will reduce State and local government indirect business tax and nontax accruals, receipts, and the NIPA surplus by about \$3.4 billion. The corrections will be made to the NIPA estimates in the next comprehensive revision, which is scheduled for late 1995. For more information, see "Corrections To Be Made to the Estimates of Property Tax Receipts," SURVEY 74 (November 1994): 10.

Table 1.—State and Local Government Receipts, Expenditures, and Surplus or Deficit, NIPA Basis

[Billions of dollars]

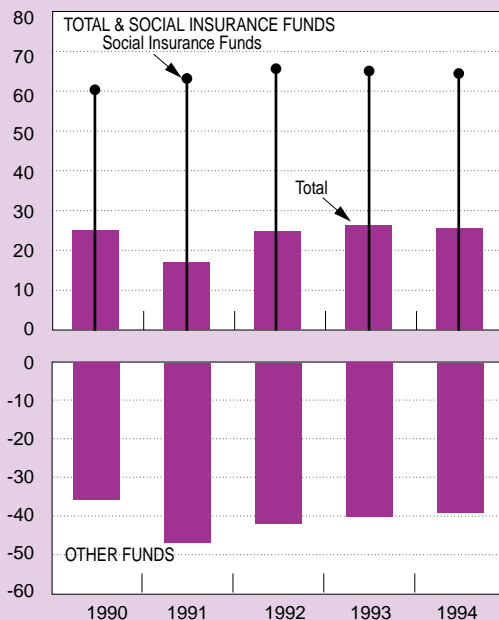
	Calendar years				
	1990	1991	1992	1993	1994
Receipts	730.0	783.6	842.9	891.0	943.2
Expenditures	704.9	766.6	818.1	864.7	917.0
Surplus or deficit (–)	25.1	17.0	24.8	26.3	26.2
Social insurance funds	60.7	63.4	66.4	66.3	65.6
Other funds	–35.6	–46.5	–41.6	–40.0	–39.3

NOTE.—The estimates for 1993 and 1994 are in table 3.3 of the "Selected NIPA Tables" in this issue; the estimates for 1990–93 are in table 3.3 in "National Income and Product Accounts Tables" in the July 1994 *Survey of Current Business*.

CHART 1

State and Local Government Surplus or Deficit, NIPA Basis

Billion \$



U.S. Department of Commerce, Bureau of Economic Analysis

Indirect business tax and nontax accruals increased 5.0 percent in 1994, up from a 4.2-percent increase in 1993. Sales taxes increased 6.5 percent after a 5.1-percent increase. Legislative actions added about \$1.8 billion to sales taxes in 1994 after adding \$1.0 billion in 1993. Excluding legislative actions, sales taxes would have increased 6.0 percent in 1994 and 5.0 percent in 1993; retail sales, the tax base for a large portion of sales taxes, increased 7.7 percent in 1994 and 6.3 percent in 1993. Property taxes increased 3.7 percent in 1994, the same as in 1993. "Other" indirect business tax and nontax accruals accelerated to a 3.8-percent increase from a 1.8-percent increase; the acceleration was widespread among the components of "other" indirect business tax and nontax accruals.³

Contributions for social insurance increased 4.6 percent in 1994, down from a 5.1-percent increase in 1993. The deceleration was most marked in contributions for temporary disability insurance and for workers' compensation; contributions for employee retirement also decelerated.

Federal grants-in-aid decelerated for the third consecutive year. The deceleration has been largely accounted for by grants for medicaid, which increased 4.6 percent in 1994, 13.4 percent in 1993, 21.1 percent in 1992, and 32.4 percent

in 1991. Excluding medicaid, Federal grants increased 7.2 percent in 1994 and 4.6 percent in 1993.

Expenditures

State and local government expenditures accelerated in 1994, following a deceleration in 1993; expenditures increased 6.0 percent in 1994, 5.7 percent in 1993, and 6.7 percent in 1992 (table 3). The acceleration was largely attributable to purchases.

Purchases.—Purchases increased 4.7 percent in 1994, following a 4.2-percent increase in 1993. Compensation of employees and "other" purchases both accelerated; purchases of structures decelerated.

Compensation of employees increased 4.8 percent in 1994, up from a 4.6-percent increase in 1993. The acceleration was more than accounted for by an increase in employment: Full-time-equivalent employment for State and local general government increased 1.6 percent, following a 1.0-percent increase. Compensation per employee, in contrast, decelerated to a 3.2-percent increase from a 3.6-percent increase.

"Other" purchases increased 4.8 percent in 1994 after a 1.7-percent increase in 1993. Purchases of durable goods increased 4.3 percent after a 3.4-percent increase, and nondurable goods increased 5.0 percent after a 4.5-percent increase. Purchases

3. The detailed estimates of indirect business tax and nontax accruals for 1990–93 are shown in table 3.5 of the NIPA tables in the July 1994 SURVEY.

Table 2.—State and Local Government Receipts, NIPA Basis

	Calendar years								
	Billions of dollars					Percent change			
	1990	1991	1992	1993	1994	1991	1992	1993	1994
Receipts	730.0	783.6	842.9	891.0	943.2	7.3	7.6	5.7	5.9
General own-source receipts	539.4	569.3	606.3	637.1	674.7	5.5	6.5	5.1	5.9
Personal tax and nontax receipts	138.9	147.9	159.1	166.1	176.5	6.5	7.6	4.4	6.3
Income taxes	106.3	110.4	118.1	123.3	131.5	3.9	7.0	4.4	6.7
Nontaxes	15.3	19.2	21.8	22.7	23.8	25.5	13.5	4.1	4.8
Other	17.3	18.3	19.1	20.1	21.2	5.8	4.4	5.2	5.5
Corporate profits tax accruals	22.3	23.0	24.2	30.3	35.4	3.1	5.2	25.2	16.8
Indirect business tax and nontax accruals	378.2	398.4	423.1	440.7	462.9	5.3	6.2	4.2	5.0
Sales taxes	183.3	189.9	202.1	212.4	226.2	3.6	6.4	5.1	6.5
Property taxes	155.5	167.6	177.5	184.0	190.8	7.8	5.9	3.7	3.7
Other	39.5	40.8	43.5	44.3	46.0	3.3	6.6	1.8	3.8
Contributions for social insurance	58.3	61.0	64.5	67.8	70.9	4.6	5.7	5.1	4.6
Federal grants-in-aid	132.3	153.3	172.2	186.1	197.6	15.9	12.3	8.1	6.2
Addendum—Receipts excluding selected law changes: ¹									
Total	725.5	770.2	822.6	870.3	921.4	6.2	6.8	5.8	5.9
General own-source receipts	534.9	555.9	585.9	616.4	652.9	3.9	5.4	5.2	5.9

1. Estimates of the effect on receipts of law changes are calculated as follows. For changes of which BEA is aware (hence the use of "selected" in the line title in the table), the estimate is of the amount of the change over the 12-month period after the change is introduced. For personal taxes, the change is introduced when the tax is paid/refunded or when withholding is changed. For indirect business taxes, the change is introduced to coincide with the transaction affected. The calculations are made by months for personal taxes and nontaxes (because they are used to prepare monthly estimates of disposable personal income) and by quarters for other taxes. Two characteristics of the resulting estimates should be noted. First, aggregation of the monthly or quarterly estimates to calendar years may give results that appear anomalous. For example, a sales tax imposed for 1 year beginning July 1 would be recorded as follows: (a) For quarters, an increase in receipts by the amount of the 12-month yield in the third quarter of that

year and a decrease by the same amount in the third quarter of the following year, and (b) for calendar years, an increase in receipts by the amount of the 12-month yield divided by 2 in the year that the increase takes place, no change in receipts in the following year, and a decrease by the amount of the 12-month yield divided by 2 in the year after that (i.e., 2 years after the increase). Second, a law change after July, which is the beginning of the fiscal year for many States, would have more impact on receipts of the next calendar year than on those of the calendar year in which it occurs.

The effects of tax law changes that are excluded from receipts to derive the addenda items in the table cover the changes beginning with those introduced in 1989. The 12-month effects, recorded for calendar years as described above, are cumulated.

of services other than employee compensation increased 4.4 percent after a 7.8-percent decrease; the turnaround was attributable to a deceleration in government sales of services. (In the NIPA's, purchases are net of receipts for certain goods and services provided by government that are defined as government sales and are subtracted in the estimation of purchases.) Government sales of services increased 8.3 percent after a 10.4-percent increase; the deceleration is largely attributable to a slowdown in prices. Gross purchases of services increased 7.7 percent after a 7.2-percent increase.⁴

Purchases of structures increased 4.2 percent in 1994, following a 5.4-percent increase in 1993. The deceleration was most pronounced in non-building construction, which increased 0.7 percent in 1994 after an 8.6-percent increase in 1993; within this category, conservation and development, water supply, electric and transit facilities, and miscellaneous nonbuilding construction (such as parks, airports, gas utilities, and parking facilities) all decelerated. Highway construction, in contrast, accelerated to a 9.4-percent increase from a 7.1-percent increase. Construction of buildings increased 2.8 percent after a 2.6-percent increase; within this category,

there were decelerations in educational buildings and hospitals.

Measured in constant (1987) dollars, State and local government purchases increased 2.1 percent in 1994, following a 1.7-percent increase in 1993 (table 4). Among the components of State and local government purchases, compensation of employees increased 1.4 percent after a 1.0-percent increase, structures increased 1.0 percent after a 3.0-percent increase, and "other" purchases increased 4.9 percent after a 3.2-percent increase, reflecting accelerations in most categories.

Transfer payments to persons.—Transfer payments to persons increased 9.1 percent in 1994, about the same as in 1993. Benefits from social insurance funds increased 9.9 percent in 1994, following a 10.7-percent increase; State and local government employee retirement and workers' compensation both decelerated. Medical care (primarily medicaid)—which accounts for about three-fourths of public assistance—increased 10.7 percent, about the same as in 1993. These medical care increases are smaller than those in 1990–92, when medical care increased more than 20 percent annually. "Other" transfer payments, such as those for education and for employment and training, decelerated in 1994.⁵

4. For a description of the NIPA treatment of government sales, see Robert P. Parker, "A Preview of the Comprehensive Revision of the National Income and Product Accounts: Definitional and Classification Changes," SURVEY 71 (September 1991): 24. Estimates of gross purchases and sales of services for 1990–93 are shown in table 3.9B of the NIPA tables in the July 1994 SURVEY.

5. The detailed estimates of government transfer payments to persons for 1990–93 are shown in table 3.12 of the NIPA tables in the July 1994 SURVEY.

Table 3.—State and Local Government Expenditures, NIPA Basis

	Calendar years								
	Billions of dollars					Percent change			
	1990	1991	1992	1993	1994	1991	1992	1993	1994
Expenditures	704.9	766.6	818.1	864.7	917.0	8.8	6.7	5.7	6.0
Purchases	620.9	651.6	676.3	704.7	738.0	4.9	3.8	4.2	4.7
Compensation of employees	412.7	437.9	461.7	483.0	506.4	6.1	5.4	4.6	4.8
Structures	87.1	92.4	94.5	99.6	103.8	6.1	2.3	5.4	4.2
Other	121.2	121.4	120.1	122.1	127.9	.2	-1.1	1.7	4.8
Transfer payments to persons	165.4	199.2	229.0	250.4	273.3	20.4	15.0	9.3	9.1
Benefits from social insurance funds	49.6	55.2	61.8	68.4	75.2	11.3	12.0	10.7	9.9
Public assistance	107.0	134.4	156.7	170.7	186.0	25.6	16.6	8.9	9.0
Other	8.7	9.6	10.5	11.3	12.1	10.3	9.4	7.6	7.1
Net interest paid	-51.3	-52.3	-53.1	-53.4	-54.8				
Interest paid	60.4	63.5	64.8	65.1	65.5	5.1	2.0	.5	.6
Less: Interest received by government	111.7	115.8	117.9	118.4	120.4	3.7	1.8	.4	1.7
Social insurance funds	46.8	52.4	58.5	62.3	65.7	12.0	11.6	6.5	5.5
Other	64.8	63.3	59.3	56.1	54.6	-2.3	-6.3	-5.4	-2.7
Less: Dividends received	9.0	9.5	10.1	10.4	10.9	5.6	6.3	3.0	4.8
Social insurance funds	8.8	9.3	9.9	10.2	10.7	5.7	6.5	3.0	4.9
Other2	.2	.2	.2	.2	0	0	0	0
Subsidies less current surplus of government enterprises	-21.1	-22.5	-24.0	-26.7	-28.6				
Subsidies4	.4	.4	.4	.4	0	0	0	0
Less: Current surplus of government enterprises	21.5	22.9	24.4	27.1	28.9	6.5	6.6	11.1	6.6
Less: Wage accruals less disbursements	0	0	0	0	0				
Addendum:									
Government sales	101.6	114.0	127.2	139.7	150.8	12.2	11.6	9.8	7.9

Other expenditures.—Net interest paid declined more in 1994 than in 1993, largely reflecting an acceleration in interest received. Interest paid accelerated slightly, reflecting the rising level of interest rates during the year and an increase in new borrowing by State and local governments. Interest received also accelerated, reflecting a smaller decline in “other” interest received. Dividends received, primarily by State and local government pension funds, increased more than in 1993. A deceleration in the current surplus of enterprises was primarily attributable to lottery sales and to Federal subsidies received by certain State and local enterprises (such as housing and transit).

Outlook for fiscal position in 1995

A major factor in the outlook for the State and local fiscal position in 1995 will be the pace of economic activity. This discussion uses the administration’s forecast of 2.8-percent growth in real gross domestic product in 1995, which is less than the 3.9-percent growth recorded in 1994. The discussion of receipts also incorporates the effects of tax law changes that have already been enacted and that will become effective in 1995; it does not attempt to predict additional changes that might be made during the year.⁶

Total receipts are likely to increase about \$55-\$60 billion, to about \$995-\$1,000 billion, in 1995. Reflecting the slower growth in economic activity, personal tax and nontax receipts are likely to increase somewhat less than in 1994; tax law

changes, which reduced the growth in 1994, are expected to have a smaller impact in 1995. Also reflecting the slower economic growth, sales taxes are likely to decelerate; tax legislation already enacted is likely to add less to the increase in sales taxes in 1995 than in 1994. Property tax accruals are likely to increase about the same as in 1994.⁷ Further, assuming a slowdown in corporate profits tax accruals in 1995, general own-source receipts are likely to increase at a slower rate than in 1994.

Federal grants-in-aid are expected to increase about 10 percent in 1995, as indicated by the Federal budget transmitted to Congress in early February 1995. This large increase, if realized, would contrast with the decelerations in the previous 3 years. Unlike the previous decelerations, which were concentrated in medicaid, the large 1995 increase is expected to be spread across many of the grant programs, including medicaid, education, community development, health care, and mass transit. Contributions for social insurance are assumed to increase at about the same rate as in 1994.

Total expenditures are likely to increase about \$45-\$50 billion, to about \$965-\$970 billion, in 1995. Purchases are likely to decelerate slightly; evidence from proposed State and local government budgets suggests slight decelerations in expenditures for current operations. Purchases of structures are also likely to decelerate in 1995; new borrowing by State and local governments

6. Most of the proposals for State tax law changes in 1995 are for tax reductions, which, if enacted, would reduce the growth of tax receipts.

7. However, if the 1994 NIPA estimates had correctly reflected the effects of tax law changes in 1994, the 1994 increase would have been smaller, and the 1995 increase would represent an acceleration. See footnote 1.

Table 4.—State and Local Government Purchases

	Calendar years									
	1990	1991	1992	1993	1994		1991	1992	1993	1994
	Billions of 1987 dollars						Percent change			
State and local government purchases	548.5	557.2	563.3	573.1	585.2		1.6	1.1	1.7	2.1
Compensation of employees	353.3	357.2	360.1	363.6	368.8		1.1	.8	1.0	1.4
Structures	79.4	83.6	85.7	88.3	89.2		5.3	2.5	3.0	1.0
Other	115.7	116.4	117.5	121.3	127.3		.6	.9	3.2	4.9
	Index numbers, 1987=100									
Addenda:										
Fixed-weighted price index, total purchases	113.2	117.0	120.3	123.4	126.6		3.4	2.8	2.6	2.6
Quantity indexes, total purchases: ¹										
Fixed 1987 weights	110.5	112.2	113.4	115.4	117.8		1.5	1.1	1.8	2.1
Chain-type annual weights	110.5	112.2	113.3	115.1	117.5		1.5	1.0	1.6	2.1
Benchmark-years weights	110.5	112.2	113.3	115.2	117.5		1.5	1.0	1.7	2.0

1. The indexes and percent changes for 1993 and 1994 are shown in tables 7.1 and 8.1, respectively, in the “Selected NIPA Tables” in this issue; the estimates for 1990–93 are in tables 7.1 and 8.1 in “Quantity and Price Indexes, 1988–94” in the August 1994 Survey. For a discussion of the indexes, see “Alternative Measures of Change in Real Output and Prices, Quarterly

Estimates for 1959–92” in the March 1993 Survey.
NOTE.—The constant-dollar estimates for 1993 and 1994 are in table 3.8B of the “Selected NIPA Tables” in this issue; the estimates for 1990–93 are in table 3.8B in “National Income and Product Accounts Tables” in the July 1994 Survey.

increased in 1994, but expected slowdowns in Federal grants for capital purposes, particularly for highway construction, make a smaller increase in construction likely in 1995.

Transfer payments are likely to decelerate in 1995. The largest component of transfer payments, payments for medical care, is likely to register a smaller increase than in 1994. The other categories of transfer payments are assumed to increase at about the same rate as in 1994.

Net interest paid is likely to decrease somewhat faster than in 1994. Interest paid is likely to

accelerate, reflecting the rise in interest rates in 1994 and increased new borrowing by State and local governments. Interest received is also likely to accelerate in 1995, reflecting the pattern of interest rates. The other categories of expenditures are assumed to increase at about the same rate as in 1994.

The changes in receipts and expenditures just discussed would result in a NIPA surplus of \$30-\$35 billion in 1995. The social insurance funds surplus is likely to remain about the same as in 1994, and the "other funds" deficit is likely to decrease, to the \$30-\$35 billion range. 